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UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

THE SPECIAL MILK PROGRAM FOR CHILDREN

A SERVICE GUIDE FOR STATES

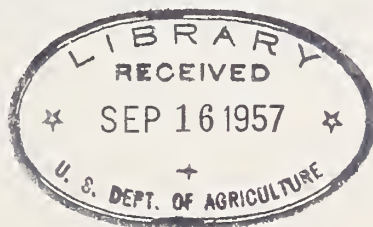
This Service Guide is issued by the Food Distribution Division of the Agricultural Marketing Service to interpret basic regulations and otherwise assist State Agencies in the administration of the Special Milk Program. It also suggests some administrative practices that State Agencies may consider adopting, if such practices meet the needs of and fit the over-all administrative pattern of the State.

The Service Guide in no way alters the obligations assumed by the State Agency under the Special Milk Program Regulations and its agreement with the Commodity Credit Corporation.

The Guide is divided into several sections and the format lends itself to use in loose-leaf form. Additional program interpretations or clarifications will be issued as supplements to the Guide, if operating experience indicates the need for them.

This Guide supersedes all prior Special Milk Service Guides and instructions, and memorandums interpreting all previous Service Guides, and notices concerning the 1956-57 program, issued prior to August 1, 1956.

NOTE: This Service Guide covers the operation of the Special Milk Program in eligible schools and child-care institutions as defined in Section I of this document. State Agencies administering the Program in only one of these two eligible categories should disregard references in the Guide to the second category.



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PREFACE

The Special Milk Program is being operated by the Department of Agriculture pursuant to a provision of the Agricultural Act of 1949, as amended by Public Law 752, 84th Congress. That Provision authorizes the use of funds of the Commodity Credit Corporation to increase fluid milk consumption by children in schools and in such nonprofit nursery schools, child-care centers, settlement houses, summer camps, and similar non-profit institutions as are devoted to the care and training of children.

The Department of Agriculture believes that a many-sided approach is necessary to realize the potentialities of the program. It hopes that the program will:

- (1) Make the service of milk possible in schools or eligible child-care institutions not now serving milk;
- (2) Encourage a larger percentage of children to drink milk in those schools and child-care institutions where milk is now available; and
- (3) Offer an opportunity to those children now drinking milk, to drink more milk, if they so desire.

Reimbursement funds available under the Special Milk Program will make possible reductions in the price at which milk is offered to children or otherwise encourage increased milk consumption. This Service Guide is concerned with interpreting program regulations on the expenditure and use of such funds. The Department recognizes that a price reduction is but one of several ways by which increased milk consumption can be encouraged; other ways include the establishment of new times for and methods of serving milk, and continuing efforts to better acquaint children with the importance of drinking adequate amounts of milk. Planning for increased efforts along these lines necessarily must rest largely in the hands of interested State and local groups.

Ultimately, the success of a food or milk service program in schools or child-care institutions rests with the administrative officials responsible and the local community, as has been amply demonstrated under the National School Lunch Program. The Special Milk Program provides another opportunity to assist in local efforts to improve the diets and health of children.

C O N T E N T S

SECTION I - ELIGIBILITY OF SCHOOLS AND CHILD-CARE INSTITUTIONS

- A. Public Schools
 - B. Private Schools
 - C. Kindergartens and Pre-School Grades
 - D. Boarding or Institutional Schools
 - E. Indian Schools
 - F. Schools Operated by Department of Defense
 - G. Child-Care Institutions
- Supplements:

SECTION II - NONPROFIT FOOD SERVICE

- A. Concession Operations
 - B. Student-Operated Food Concessions in Schools
 - C. Canteens or Trading Posts in Summer Camps
- Supplements:

SECTION III - SERVICE OF FLUID MILK

- A. Fluid Milk
 - B. Flavored Milk
- Supplements:

SECTION IV - FLUID MILK ELIGIBLE FOR REIMBURSEMENT

- A. Milk Purchased for Service to Children
 - B. Fluid Milk Used in Cooking
 - C. Milk Consumed by Adults
 - D. Option to Exclude Milk from Reimbursement
 - E. Time of Service
 - F. Combined High School-Junior College Operations
- Supplements:

SECTION V

- RATES OF REIMBURSEMENT

- A. Rates Assigned to Individual Schools and Institutions
 - B. Price to Children as Related to Assigned Rates
 - C. Schools Serving Type A or B Meals
 - D. Schools with More Than One Attendance Unit
 - E. Hardship Cases - Schools Serving Type A or B Meals
 - F. Dual Rates of Reimbursement
- Supplements:

SECTION VI

- PRICING OF MILK

- A. Milk Subject to the Pricing Provision
 - B. Cost of Milk to Schools and Child-Care Institutions
 - C. Price of Milk to Children
 - D. Approval of Distribution Cost Margins
 - E. Price of Milk - Schools With More Than One Attendance Unit
 - F. Pricing and Processing of Claims
 - G. Review of Distribution Cost Margins
- Supplements:

SECTION VII

- REQUIREMENTS WHEN MILK IS NOT OFFERED AS A SEPARATELY PRICED ITEM

- A. Application for Participation
 - B. Assignment of Reimbursement Rates
 - C. Processing of Claims for Reimbursement
 - D. Optional Method of Reimbursement
- Supplements:

SECTION VIII

- EFFECTIVE DATES FOR REIMBURSEMENT

- A. Date of Federal-State Agreement
 - B. Approval Date
 - C. Prior Approval to Begin Operations
 - D. Dating Applications and Agreements
- Supplements:

SECTION IX - PROGRAM FORMS

- A. Application and Agreement
- B. Claim Form
- C. Monthly Reports
- Supplements:

SECTION X - RECORDKEEPING REQUIREMENTS

- A. The State Agency
- B. Participating Schools and Child-Care Institutions
 - (1) Nonprofit Food or Milk Service
 - (2) Milk Purchased for Service to Children
 - (3) First Claim Submitted
- Supplements:

SECTION XI - RELATIONSHIP TO NATIONAL SCHOOL LUNCH PROGRAM

- A. Type C Reimbursement
- B. Matching Requirements
- Supplements:

EXHIBIT 1 - Claim for Reimbursement - Schools

EXHIBIT 2 - Claim for Reimbursement - Child-Care Institutions

EXHIBIT 3 - Application-Agreement - Schools

EXHIBIT 4 - Application-Agreement - Child-Care Institutions

SECTION I - ELIGIBILITY OF SCHOOLS AND CHILD-CARE INSTITUTIONS

Legislation authorizing the Special Milk Program limits participation in the program to nonprofit schools of high school grade and under and to nonprofit child-care institutions.

A. Public Schools

An eligible public school is a school of high school grade and under as defined by the statutes of the State.

B. Private Schools

An eligible private school is a school of high school grade and under that is exempt from Federal income tax.

C. Kindergartens and Pre-School Grades

A school of high school grade and under which includes a kindergarten or other pre-first-grade classes as a part of its program may receive reimbursement for milk served to children in such classes.

Kindergartens or nursery schools operating apart from a regular school system are not eligible as schools unless they fall within the definition of school according to State statute. (See Item G below.)

D. Boarding or Institutional Schools

Some schools may have resident students and serve more than one meal per day to some or all of the students attending the school. These schools are eligible to apply for participation. However, when such schools do not offer milk as a separately priced item, they must submit, as part of their application, the specific plans by which milk consumption is to be increased. (See Section VII.)

E. Indian Schools

Schools of high school grade and under operated by the Bureau of Indian Affairs are eligible for participation, subject to any applicable considerations in Section VII relating to boarding or institutional schools.

F. Schools Operated by Department of Defense

Schools of high school grade and under operated by any branch of the armed forces on military bases in the States for the children of base personnel come within the term "nonprofit school". If the appropriate State official declares that the State Agency is legally prohibited from disbursing Federal funds to such schools, they may apply for participation to the appropriate area office of the Food Distribution Division of AMS.

G. Child-Care Institutions

Nonprofit child-care institutions such as summer camps, nursery schools, child-care centers, settlement houses and similar institutions (non-penal correctional institutions, children's hospitals, orphanages, boys' clubs, recreational centers, etc.) providing care and training for children are eligible for the Special Milk Program provided (1) the institution is devoted to the care and training of children or (2) the institution, while having other basic purposes, operates a nonprofit program or activity devoted to the care and training of children.

Broadly speaking, therefore, any nonprofit child-care institution or program is eligible to participate in the program. However, before approving an institution or program for participation, State Agencies should give consideration to: (1) The administrative feasibility of operating a Special Milk Program within the institution, and (2) the potential for increased milk consumption above the present or normal level.

1. ADMINISTRATIVE FEASIBILITY

In general, administrative feasibility can be determined by ascertaining whether:

- (a) There is a responsible officer or representative of the organization who has sufficient authority and control to insure that the program is operated in accordance with program regulations and the agreement with the State Agency.
- (b) The nature of milk service and the types of records maintained make it possible to determine both pre-program milk consumption levels and actual performance with respect to increased consumption after the program is inaugurated. For instance, a children's ward in a general hospital could not be approved for participation unless pre-program consumption can be determined and a separate account established on the books of the hospital concerning milk purchased and served in the children's wards under the program. Otherwise, it would be extremely difficult to separate milk purchase and consumption for children in the ward from that of all other patients.

- (c) The milk service is daily or regular over a period of time, as distinguished from infrequent, intermittent or occasional service. For instance, it would not be practical to enter into an agreement with a Boy Scout troop with no other milk service except for over-night or week-end camping trips, or once-a-week meetings.

2. POTENTIAL FOR INCREASED CONSUMPTION

Some child-care institutions applying for participation will not be able to demonstrate a practical potential for an increase in milk consumption. For instance, an institution may be offering unlimited quantities of milk to children with each meal. Unless the institution plans to inaugurate new between-meal services, it should not be considered for participation. A careful review should be made in the case of any institution which has been serving milk more than three times a day to attending children.

SECTION II - NONPROFIT FOOD SERVICE

One of the requirements for participation is that the school or child-care institution operate a nonprofit food service, or a nonprofit milk service in the event that no other food service is maintained by the school.

A. Concession Operations

The above requirement serves to exclude from participation those schools and child-care institutions in which income from the food or milk service of the school or institution is used to finance other activities or where the food or milk service is operated under a concession or similar contractual arrangement with an individual, firm, group, or organization. It does not, however, mean that a private nonprofit organization such as the PTA is prohibited from acting as the sponsoring agency for a school, if the State Agency permits schools to delegate responsibility for the nonprofit operation of the school's food or milk service to such an organization. A comparable arrangement for food or milk service in a child-care institution would also be permissible.

B. Student-Operated Food Concessions in Schools

Because of the educational values for children, some schools maintaining a nonprofit food service also permit the operation of a supplemental food service by students for the benefit of student activities. A school maintaining a nonprofit food service should not be excluded from participation by reason of a supplemental student-operated food concession in the school.

It is recognized that, in a few instances, a school operating a nonprofit food service may deem it desirable to utilize the existing facilities of a student-operated concession to increase the availability of milk in the school rather than to employ additional labor for the same purpose. If so, milk served to children through a student concession may be eligible for reimbursement, provided:

- (1) The milk so served is purchased for the account of the school's nonprofit food service and all revenue from the sale of milk through the student concession is turned over to the school's nonprofit food service; and
- (2) Any payments made by the school to the student concession for labor or other costs in connection with the service of milk to children shall bear a relationship to the amount of service rendered by the student concession.

Similarly, a school in which the only food or milk service maintained is a student-operated concession, may receive reimbursement for milk sold through the student concession under the above-outlined conditions.

C. Canteens or Trading Posts in Summer Camps

In many summer camps, the only opportunity to increase milk consumption outside the regular meal services may be through canteens or trading posts operated for attending children by the camp sponsor. It is permissible to utilize the facilities of such canteens or trading posts to increase the availability of milk to children, subject to the same conditions established for the use of student-operated concessions in schools.

SECTION III - SERVICE OF FLUID MILK

Reimbursement under the program is limited to fluid milk.

A. Fluid Milk

Program regulations provide that reimbursement shall be made only for fluid milk meeting applicable butterfat standards for unflavored whole milk. Reconstituted, evaporated or dry whole milk, or fluid cream, are not within the program definition of fluid milk.

B. Flavored Milk

Reimbursement for flavored milk served under the program is discretionary on the part of the State Agency.

In a few States, the minimum butterfat content established for flavored fluid milk is less than the minimum butterfat content established for unflavored fluid milk. In such States, schools or child-care institutions claiming reimbursement for flavored milk shall be required to obtain a written certification from the dairy that the flavored milk supplied is made from unflavored milk meeting applicable butterfat and sanitation standards.

In certain other instances, dairies supply schools or child-care institutions with flavored fluid milk in the containers used and labeled for flavored milk drinks. To avoid any misunderstanding concerning the butterfat content of the flavored milk served in such containers, it shall be required that such schools or institutions claiming reimbursement for flavored milk obtain a written certification from the dairy that the flavored milk supplied meets program requirements.

SECTION IV - FLUID MILK ELIGIBLE FOR REIMBURSEMENT

Program regulations provide for the reimbursement of fluid milk purchased for service to children, except for the quantity served as the first half pint in a Type A or B lunch under the National School Lunch Program.

A. Milk Purchased for Service to Children

Instructions on the claim form (Exhibit 1) outline the minimum requirements concerning the method by which participating schools shall determine the quantity of milk purchased for service to children. The calculation involves subtracting the quantity of milk consumed by adults as a beverage from the total quantity of fluid milk purchased by the school during the month for which reimbursement is being claimed. Schools that serve Type A or B meals shall also subtract the first half pint served as part of such a meal. The number of half pints subtracted shall be the same as the number of Type A or B meals served with milk.

Instructions on the claim form to be used by participating child-care institutions (Exhibit 2) outline the minimum requirements concerning the method by which such institutions shall determine the quantity of milk purchased for service to children.

Although the above method minimizes recordkeeping requirements for individual schools and institutions, the State Agency may deem it desirable for other reasons to require that claims for reimbursement be based on an actual daily count of the number of half pints of milk served to children.

B. Fluid Milk Used in Cooking

Fluid milk used in cooking and for other non-beverage purposes is eligible for reimbursement.

In those States that require an actual daily count to determine the amount of milk eligible for reimbursement, schools and child-care institutions shall be required to maintain a daily record of the quantity of fluid milk so used, if such milk is to be included in the claim for reimbursement.

C. Milk Consumed by Adults

Fluid milk consumed as a beverage by adults is not eligible for reimbursement. This includes all beverage milk sold to teachers and other adults as well as that consumed by adults working in the lunchroom or by other adults employed by the school or institution.

The quantity of milk consumed by adults as a beverage shall be determined by actual count or, at the option of the State Agency, some or all schools or institutions shall be permitted to subtract five (5) percent of the total amount of fluid milk purchased each month as an estimate of the quantity consumed by adults during that month. The 5-percent method, however, shall not be used by those States which require that the quantity of milk eligible for reimbursement be determined on the basis of a daily count of the number of one-half pints served to children.

D. Option to Exclude Milk From Reimbursement

Program regulations provide an option to the State Agency to exclude from reimbursement a portion of the milk served to children in those schools operating a food service outside the National School Lunch Program or schools serving more than one meal a day.

The exclusion of a portion of the milk from reimbursement does not entitle such schools to a reimbursement rate in excess of 3 cents; nor, when milk is offered as a separately priced item, does such action alter the school's obligation to price milk in accordance with program regulations. Therefore, to avoid a price-reduction problem in the school, the quantity of milk excluded from reimbursement should bear a relationship to the quantity of milk sold as part of a plate lunch or other package-price food combinations, e.g., a soup-sandwich-milk combination.

The minimum requirements for claim forms, as outlined in Section IX, does not fit the situation when a portion of the milk served to children is excluded from reimbursement. Therefore, State Agencies exercising this option shall develop a special claim form, or issue special instructions for the completion of the regular claim form, in order that appropriate adjustments will be made in the net quantity of milk for which reimbursement is claimed.

The program regulations provide an option similar to the above for State Agencies administering the program in child-care institutions.

E. Time of Service

Reimbursement may be paid for milk served to children in schools and child-care institutions during periods of scheduled activities. This may include periods prior to and after the hours of scheduled classes (including periods when social or athletic events are held), if such periods are considered as a part of the program of the school or institution by the responsible authorities.

When an activity is scheduled after class instruction or training periods and is open to both children and the general public, the school or institution shall make arrangements to insure that milk consumption by adults can be separated from consumption by children.

Schools which operate a Special Milk Program during the regular school term may claim reimbursement for milk served to children participating in summer activities operated by the school after the expiration of the regular school term, provided (1) the summer program is regarded by local school authorities as a regular part of the school activities, (2) the program sponsor who signed the agreement covering the regular school term will be responsible for the operation of the summer program, and (3) the children who attend and participate in such activities are under the care and jurisdiction of the school officials who supervise the activity. (See Section V-C.)

Reimbursement after June 30 or the expiration date of existing school agreements will be contingent upon the execution of a new agreement by the school or by the extension of the existing agreement to cover operations for the ensuing fiscal year.

F. Combined High School-Junior College Operations

In some instances high schools are operated in conjunction with or in close proximity to junior colleges where the high school and junior college students share common feeding or milk service facilities. It may be impossible, therefore, for the participating high school to keep accurate records separating the consumption of milk by high school students from that of junior college students. Under these circumstances, the State Agency may authorize the participating high school to claim reimbursement in the following manner:

(1) At the time the school enters the program and annually thereafter, it shall determine, and report to the State Agency, the percentage of total enrollment represented by high school students.

(2) The claim form should be completed in the usual manner, subtracting from total milk purchases the quantities served in Type A or B meals and the quantity consumed by adults.

(3) The net amount of reimbursement to be claimed by the participating high school is then determined by multiplying the gross claim by the percentage that high school enrollment is of total enrollment, as determined in (1) above. The resulting amount should be entered as the net amount claimed.

(4) If, during the course of the school year, a significant change occurs in the percentage division between junior college and high school students, the school may request the State Agency to approve a revision in its percentage-adjustment factor.

This simplified method of determining the quantity of milk eligible for reimbursement does not alter the schools' obligation to price milk in accordance with the pricing provisions of the program.

SECTION V - RATES OF REIMBURSEMENT

The State Agency is responsible for assigning rates of reimbursement to participating schools and child-care institutions within the maximum rates established in the program regulations.

A. Rates Assigned to Individual Schools and Institutions

The State Agency is not required to assign the maximum reimbursement rate if it believes a lesser rate of reimbursement will effectively encourage increased milk consumption by children.

In assigning the rate for any individual school or institution, the State Agency may consider the following factors: (1) The cost of milk; (2) the type of food service maintained; (3) the percentage of children drinking milk as a part of a Type A or B lunch in a school; and (4) the price at which the school or institution proposes to offer milk to children.

Rates of reimbursement for schools and child-care institutions which do not offer milk to children as a separately priced item shall be determined in accordance with the provisions of Section VII of this Guide.

B. Price to Children as Related to Assigned Rates

Because of the pricing provisions of the program, the price at which the school or institution proposes to offer milk to children may be the governing factor determining the rate of reimbursement assigned to the school.

For example, a large urban secondary school, participating in the National School Lunch Program, may insist that it is not feasible to sell separate servings of milk at less than 5 cents per half pint because of the problem of handling pennies for change or because of coin-operated dispensing or vending machines. If the cost of milk to such a school were 6 cents, a reimbursement rate of 2 cents or less must be assigned, if the State Agency had not approved a distribution cost margin fractionally above one cent.

When less-than-maximum rates of reimbursement must be established because of the pricing policy of the school or institution, the State Agency may wish to consider assigning such a rate with the understanding that an upward adjustment in the rate can be requested, if the school or institution subsequently finds it possible to further reduce the price of milk to children.

C. Schools Serving Type A or B Meals

Service of a Type A or B meal on each and every day of the school term is not required as a condition for the assignment of a rate in excess of 3 cents for such schools. For example, many schools do not serve lunch during the first or last days of the school term but may wish to offer milk during such periods. Such schools may be assigned a rate in excess of 3 cents for the entire school year if such action is deemed advisable by the State Agency.

The above provision is not intended to authorize a reimbursement rate in excess of 3 cents when Type A or B meals are not served over an extended period during the regular school term. If the monthly claim submitted by a school in the National School Lunch Program does not report the service of any Type A or B meals, reimbursement at a rate in excess of 3 cents shall not be made, unless: (1) The claim covers operations during the first or last month of the regular school term or, (2) the claim covers milk service to children taking part in school activities during the summer months, as authorized in Section IV E of the Service Guide.

D. Schools With More Than One Attendance Unit

The State Agency may regard a school that operates the program in more than one attendance unit as a single school for reimbursement purposes, or each attendance unit may be regarded as an individual school.

If the attendance units of the school are regarded as individual schools, a reimbursement rate in excess of 3 cents shall be assigned only to those units serving Type A or B meals; all other units shall not be assigned a rate in excess of 3 cents. The establishment of differing rates of reimbursement among the units does not require the submission of an individual claim from each unit of the school, unless the State Agency so elects. (See Section IV.)

If all of the attendance units are regarded as a single school, a reimbursement rate in excess of 3 cents shall not be assigned, unless all attendance units are serving Type A or B meals under the National School Lunch Program. This latter provision does not require the physical service of Type A or B meals in every attendance unit if established arrangements have been made for the children of some attendance units to be served Type A or B lunches in the lunchroom of other units within the school.

E. Hardship Cases - Schools Serving Type A or B Meals

It is anticipated that an occasional case may arise when, because of unusual circumstances, a school approved to serve Type A or B meals under the National School Lunch Program is forced to delay the start of its food service operations or to suspend such operations for more than a 30-day period during the course of the school year. For example, unexpected delays may be encountered in the delivery of school lunch equipment for a new school or a fire may destroy the school kitchen.

If such a school has sold milk to children under a pricing policy based upon an approved reimbursement rate in excess of 3 cents, the provisions of Subsection C above may result in undue hardship upon the school during the period before food service operations can be started or resumed. Under such circumstances, the State Agency may pay claims submitted by such schools at the originally approved rate, even though Type A or B meals were not served during the period covered by the monthly claim. Before making such payments, the State Agency shall require local school authorities to submit a written explanation of the reasons why the school was unable to operate its food service. This explanation shall be maintained on file in the State Agency.

F. Dual Rates of Reimbursement

In a limited number of instances, the pricing policy of the school or institution may require the establishment of two rates of reimbursement within the same school or institution. Widespread use of dual rates is not advised, however, because it seriously complicates record-keeping and the preparation of claims by the school or institutions.

A typical situation that may require the establishment of dual rates is when a school wishes to offer milk at 2 cents at noontime in the lunchroom and operate a 5-cent vending operation at periods other than the lunch hour. This type of pricing policy is acceptable under program regulations, provided the milk is offered to all children at the same price at each time of service. For example, the above pricing policy would not be acceptable if children bringing home-packed lunches were required to buy 5-cent milk from the vending machine during the lunch period. (See Sections IX and X for claims procedure and recordkeeping requirements.)

SECTION VI - PRICING OF MILK

As a primary means of encouraging increased milk consumption by children, participating schools and child-care institutions which offer milk as a separately priced item, shall be required to make maximum use of the reimbursement payments to reduce the price of milk to children. The performance of any participating school or institution with respect to this provision of the program shall be based upon the relationship between the cost of milk and the price at which milk is offered to children.

Some schools and institutions will be in a position to offer milk to children at a price that is equal to the cost of milk minus the full amount of the reimbursement payment, and such a pricing policy ought to be encouraged. However, many schools and institutions will need to use a portion of the reimbursement payments received to finance the cost of distributing milk within the school.

Generally, it is believed that most schools and institutions will be fairly compensated for the cost of maintaining a milk service with a handling margin of one cent, or less, per half pint. However, there will be instances where the applicant school or institution will incur some exceptional costs. For example, a school may need to underwrite the cost of extra labor required to establish additional times of service or it may need to purchase additional milk service equipment. Thus, the approval of a distribution cost margin fractionally above one cent for such a school could be in the interest of over-all program objectives.

The school or institution which purchases milk at fractional prices presents another problem when single half pints are to be sold at even-cent prices. To insure that the maximum use of reimbursement payments is made to reduce the price of milk to children, the State Agency should review the situation in such a school or institution to determine whether the adjustment should be made in the assigned reimbursement rate or the approved distribution cost margin. It is suggested that State Agencies consider the use of reimbursement rates breaking at the half-cent in those instances where fractional costs are involved and no exceptional service costs are anticipated.

For example, a National School Lunch Program school purchases milk at a cost of 5.6 cents a half pint and proposes to establish a selling price of 3 cents. The State Agency has 3 alternative courses of action:

1. It may assign the school a rate of 3.5 cents, allowing a distribution cost margin of nine-tenths of a cent.
2. It may believe the school would be adequately compensated for its costs with a margin of four-tenths of a cent and, thus, establish a 3-cent reimbursement rate -- or a 4-cent rate if the school is willing to establish a selling price of 2 cents.
3. It may believe the milk service costs in the school warrant the approval of a 1.4 cent margin and, thus, assign a 4-cent rate to the school.

It is recognized that it is impossible to exactly determine the actual per-half-pint-cost of serving milk in any applicant school. However, general knowledge of the type of milk service maintained by the school, together with its volume of sales, should permit the State Agency to determine if the school needs a margin fractionally above one cent to enable it to offer milk to children at even-cents prices or to insure that the school does not incur a financial loss by reason of its participation in the program.

A. Milk Subject to the Pricing Provision

The pricing provision relates to the price at which milk is offered to children as separate servings. It shall not apply to the first half pint priced as part of a Type A or B lunch nor to the price of food items in which fluid milk is used as an ingredient.

B. Cost of Milk to Schools and Child-Care Institutions

In measuring performance with respect to the pricing provision, the cost of milk shall be the actual per-half-pint amount paid by the school or institution to the milk distributor for the milk purchased during the month covered by each claim for reimbursement, subject to the qualification in the following paragraph.

Some milk suppliers rent milk service equipment to the schools or institutions for a specific per-half-pint charge that is added to the cost of the milk. Other suppliers finance the purchase of such equipment and the school or institutions make installment repayments, based upon a specific per-half-pint amount added to the cost of milk. In measuring performance with respect to the pricing provision, such equipment rental or purchase charges shall not be included as a part of the cost of milk. Such charges shall be considered as within-school or institution distribution costs.

Some participating schools or institutions will be paying the milk supplier more than one price for the beverage milk purchased for service to children. For example, the cost of flavored milk may be higher than the cost of unflavored milk, or bulk milk may be purchased for service through a dispensing machine in the lunchroom and packaged milk purchased for service at recess periods. Under such circumstances, if the application submitted by the school or institution indicates that the unflavored and flavored milk (or the bulk and packaged milk) are to be offered to children at the same price, the State Agency may regard the higher of the two costs as the cost of milk.

C. Price of Milk to Children

Participating schools or institutions may offer milk to children at both single and multiple unit prices at the same time of service, e.g., 3 cents per half pint or 6 tickets for 15 cents. In measuring performance with respect to the pricing provision, the price of milk to children shall be the highest price at which it is offered at each time of service, which would be 3 cents per half pint in the above illustration.

In order to overcome the "price-blending" problem in the 1954-55 program, some schools instituted a pricing policy based upon the availability of "free" additional milk after the payment of 5 cents for the first half pint. The performance of any school or institution using such a pricing policy will be measured by the price at which the first half pint is offered to children. It would not be practical to permit performance to be measured by the average revenue received per half pint for all the milk served to children. Average revenue could not be determined until the end of the month and, thus, the school or institution would face the financial risk that the amount of "free" milk served was not sufficient to reduce the average revenue from milk sales to the level required to be eligible for reimbursement.

While such a pricing system may tend to encourage increased consumption among the best milk drinkers in the school or institution, the relatively high price of the first half pint would tend to discourage consumption among the needy children and among those that might wish but one-half pint. The most effective pricing policy to encourage all children to drink milk is offering the milk at the lowest possible price per single serving. This pricing policy, of course, may be combined with a system of selling tickets, tokens, or coupons that offer bargain prices for multiple-unit purchases, e.g., a 3-cent price per half pint or a 10-ticket price of 25 cents.

D. Approval of Distribution Cost Margins

The applications submitted by each school or institution will report the cost of milk and the price at which the school or institution proposes to offer separate servings of milk to children. In approving applications, therefore, it shall be the responsibility of the State Agency to review the relationship between the reported cost of milk and the proposed selling price to children, to determine if the school or institution will be making maximum use of the reimbursement payments to reduce the price of milk to children.

In exercising this responsibility, the State Agency may approve for participation any otherwise eligible school or institution, under the following conditions:

- (1) When the application indicates that no more than one cent per half pint of program funds will be used to defray distribution costs. (This is not intended to prohibit the State Agency from establishing a lesser distribution cost margin.)
- (2) When, in the opinion of the State Agency, schools or institutions which purchase milk at fractional costs need a distribution cost margin fractionally above one cent to enable them to offer milk to children at even-cent prices. (See paragraphs 4 and 5, page 1, of this section.)
- (3) When, in the opinion of the State Agency, the applicant has provided sufficient justification for a distribution cost fractionally above one cent per half pint, because of exceptional costs in maintaining a milk service. The reasons why such a distribution cost margin is needed shall be submitted in writing to the State Agency either as a part of the application or as supplemental statement.

E. Price of Milk - Schools With More Than One Attendance Unit

Some schools with more than one attendance unit may wish to offer milk to children at the same price in all units, even though different rates of reimbursement have been assigned to the various units, e.g., 4 and 3 cents. Under such circumstances, performance with respect to the pricing policy may be measured by the average rate of reimbursement received each month for all the milk served in all the units of the school. This has the effect of measuring pricing performance on the basis of the average within-school handling cost maintained in all the units of the school.

F. Pricing and Processing of Claims

In processing claims for reimbursement, the State Agency shall review the relationship between the cost of milk and the price at which it is offered to children to insure that schools and institutions are operating within the pricing provision.

A school or institution whose application indicated compliance with the pricing provisions may subsequently submit a claim where, because of changed conditions, the payment of the full amount claimed would result in a distribution cost margin in excess of that previously approved. If the increase in the margin results from a fractional change in the cost of milk, the State Agency may pay the full amount of the claim, provided the resulting margin does not exceed the allowable maximum. If the increase results from a change in the price of milk to children, the State Agency shall disallow such amount of the claim as is required to reduce the distribution cost margin to the previously approved amount. At the same time, it shall take appropriate action to insure compliance with the pricing policy for subsequent months.

As an alternative to securing new annual applications and agreements, it is permissible for State Agencies to amend existing agreements with schools and institutions to extend program operations through the succeeding fiscal year. When this method is used, the State Agency shall notify schools and institutions at the time the agreement is amended that compliance with the program pricing provisions will be determined on the basis of the first claim received under the extended agreement and necessary adjustments made at that time. State Agencies which use this method of extending program operations shall institute the review procedures necessary to assure that program pricing provisions are being complied with prior to payment of the first claim.

G. Review of Distribution Cost Margins

Program Regulations provide that distribution cost margins approved in excess of one cent per half pint shall be subject to periodic review.

In addition to the review of distribution cost margins during the routine processing and payment of claims (Section VI F), all margins approved in excess of one cent shall be administratively examined at least once during the program year to determine whether any further action is required to maintain the Special Milk Program's objective that maximum use of the reimbursement payments be made to reduce the price of milk to children.

(a) Schools or institutions approved as needing a greater than one cent margin because of fractional milk prices should be examined at least once a year to determine whether any change has occurred in the situation which led to the original approval of a margin in excess of one cent. In the event that circumstances have changed (for example, a reduction in the cost of milk) whereby a reduced distribution cost will not result in a loss to the school, the State Agency should request the school to reduce the price of milk to the child or reduce the rate of reimbursement. If the price of milk has remained unchanged, the State Agency will determine whether any further action is required to maintain the Special Milk Program's objective that the maximum amount of the reimbursement payments to the school be reflected in reduced prices to the child for milk.

This review is to be accomplished by the end of February.

(b) Schools or institutions approved for a margin above one cent because of special distribution costs, should be reviewed not less than once a year to ascertain whether income to the school resulting from the distribution margin is more than sufficient to meet the special distribution costs originally justified by the school. For example, the volume of sales under the milk program may have been sufficiently great as to amortize the cost of milk service equipment in a 5-month period rather than the full year of operation. The timing, method, and extent of such a review must rest primarily upon the judgment of the State Agency and may be different for each school but should be made no later than the end of February to make possible any necessary adjustments prior to the end of the year.

If the circumstances which justified the approval of a distribution cost in excess of one cent have changed to the extent that such a margin is no longer justified, the State Agency shall take the necessary action to establish a new distribution cost consistent with the circumstances existing at the time of the review.

SECTION VII - REQUIREMENTS WHEN MILK IS NOT OFFERED AS A
SEPARATELY PRICED ITEM

Some schools (usually boarding and institutional schools) and some child-care institutions do not offer or serve milk to children as a separately priced item. Therefore, because they do not have the opportunity to encourage increased consumption of milk by reducing prices to children, their participation in the program is subject to a different requirement. Such schools and institutions must demonstrate that, as a result of their participating in the program, they are purchasing increased quantities of milk for service to children.

A. Application for Participation

Such schools and institutions shall be required to submit, prior to approval for participation, a description of the methods or practices by which they plan to encourage the increased consumption of milk under the program. Among other things, the methods or practices may include the establishment of new times of service, or the service of additional milk at any meal served to children. If the school or institution intends to offer separately priced servings of milk, a description of such services should be included in the application and the price of the milk to children must meet the pricing provision of the program.

B. Assignment of Reimbursement Rates

The State Agency may assign reimbursement rates to these schools and institutions within the same maximum rates established for all other schools and institutions. However, because such schools and institutions will receive reimbursement for all milk served to children (except for the first half pint served as part of a Type A or B lunch), the rate of reimbursement assigned should be related to the cost of the additional milk to be served.

For example, an institutional school outside the National School Lunch Program usually provided one-half pint of milk to each of the 100 children in attendance at each of the three meals served a day. It now proposes to institute a new mid-afternoon serving of one-half pint at no charge to the children. The school's application states that the cost of milk is 6 cents. Therefore, the cost of the additional 100 half pints for the mid-afternoon service would be \$6.00. The school's reimbursement claim will report the daily service of 400 half pints to children. If the State Agency were to assign a reimbursement rate of 1-1/2 cents, the school would receive \$6.00 for the additional 100 half pints served to children each day.

In the case of newly established or constructed institutions, the rate of reimbursement assigned shall take into account the amount of milk that would have been served by such an institution in the absence of the Special Milk Program. For example, a newly constructed summer camp applies for participation, indicating that it will serve one-half pint of milk at each of the three daily meals. Comparable camps in the same general area have normally served two half pints of milk to children each day. In the case of the newly constructed camp, therefore, one of the 3 half pints would be regarded as increased consumption and the rate of reimbursement would be related to the cost of the one additional half pint each day.

It is recognized that, because of the difficulties involved, such determinations with respect to the initial rate of reimbursement to be assigned to such schools and institutions can be made only within broad limits.

C. Processing of Claims for Reimbursement

Rates of reimbursement assigned to schools and institutions which do not offer milk as a separately priced item are subject to adjustment if there is a substantial variation between planned performance with respect to increased milk consumption (as indicated in the application) and actual performance (as shown by the amount of milk purchased for service to children in the monthly claim for reimbursement).

In processing claims for reimbursement from such schools and institutions, the State Agency shall develop a procedure by which planned and actual performance under the program can be compared. When a school or institution cannot demonstrate substantial compliance with its plan for increased milk consumption appropriate adjustments in the assigned rate of reimbursement shall be made.

D. Optional Method of Reimbursement

Program regulations provide that a State Agency may exclude from reimbursement a portion of the milk served to children in these schools and institutions, if such action is deemed advisable in order to accomplish the objectives of the Special Milk Program.

SECTION VIII - EFFECTIVE DATES FOR REIMBURSEMENT

Program regulations provide that schools and child-care institutions shall make written application for the program and that the State Agency shall designate the effective date on which the school or institution is authorized to begin operations under the program. The regulations also provide that, if certain conditions are met, the State Agency may authorize a school or institution to begin operations prior to the date the State Agency executes the agreement with the school or institution. It is emphasized, however, that care should be exercised by the State Agency in the use of this option, because reimbursement payments shall be contingent upon the school or institution meeting all provisions of its agreement with the State.

A. Date of Federal-State Agreement

In no event shall the State Agency make reimbursement for any operations under the program prior to the effective date of the State Agency's agreement with the Commodity Credit Corporation.

B. Approval Date

In the absence of prior approval, the effective date for a school or institution to begin operations shall not be earlier than the date the agreement is executed by the State Agency.

It is suggested that the State Agency consider the advantages of utilizing a lead-time of about a week in establishing the date a school or institution is authorized to begin operations. In this manner, the school or institution will have time to receive the agreement and make such adjustments in the operation of its food or milk service that may be required to bring it into compliance with the terms of its agreement with the State Agency.

C. Prior Approval to Begin Operations

Approval, including verbal approval, to begin operations may be granted by the State Agency prior to the processing of the school's or institution's application by the State Agency under the following conditions:

- (1) The date and circumstances of such approval shall be confirmed in writing to the school and the confirmation shall indicate that the approval is granted with the understanding that reimbursement payments will be contingent upon the school's or institution's adherence to program requirements;

(2) A copy of the written confirmation of the date the school or institution was authorized to begin operations shall be on file in the State Agency;

(3) In the event that the school's or institution's application is not received by the State Agency within 30 calendar days from the date of approval to begin operations, the school or institution shall not be reimbursed for any milk served more than 30 calendar days prior to the receipt of the school's application by the State Agency; and

(4) Payment of any reimbursement earned shall be withheld until the completed agreement is on file in the State Agency.

D. Dating Applications and Agreements

Care should be exercised by the State Agency to insure that program records clearly indicate the date on which the school or institution was authorized to begin operations and the State Agency shall be responsible for establishing a system of date-stamping or otherwise recording the date on which applications are received by the State Agency.

The date to be inserted in the body of the agreement shall be the date on which the school or institution was authorized to begin operations under the program.

The following two examples illustrate the correct dating of applications and agreements:

Example 1:

A school completes the application September 1. The State Agency receives the application September 3, date-stamps or otherwise records the receipt of the application, and executes the agreement September 6. It authorizes the school to begin operations the following Monday, September 12.

The following dates shall appear in the agreement:

(a) The date used by the school at the end of the agreement shall be September 1, the date the application was completed by the school.

(b) The date used by the State Agency at the end of the agreement shall be September 6, the date the agreement was executed by the State Agency.

(c) The date to be inserted in section 4 of the agreement shall be September 12, the date the school was authorized to begin operations under the program.

Example 2:

A school is given telephone approval to begin operations August 22 and a letter confirming the August 22 approval is written to the school by the State Agency on August 23. The school receives the application-agreement on August 29, and completes it the same day. The State Agency receives the application September 2, date-stamps or otherwise records the date of receipt of the application, and executes the agreement on September 3.

Using Exhibit 1, the following dates shall appear:

(a) The date used by the school official at the end of the agreement shall be August 29, the date the application was completed by the school.

(b) The date used by the State Agency at the end of the agreement shall be September 3, the date the agreement was executed by the State Agency.

(c) The date to be inserted in section 4 of the agreement shall be August 22, coinciding with the date designated in the written confirmation as the one on which the school was authorized to begin operations under the program.

SECTION IX - PROGRAM FORMS

The application and agreement forms and the reimbursement claim forms used by the State Agency shall meet the minimum requirements established by AMS.

A. Application and Agreement

Exhibit 3 is a combined application-agreement form that includes the minimum information required by AMS for application and agreement forms under the program. The State Agency may use a separate application and agreement or a combined application-agreement. Exhibit 4 is a similar form for use by child-care institutions with the same provisions applying.

The items in the application section of Exhibit 3 request certain information about applicant schools that the State Agency may already have on file, or which they may wish to compile in a different manner, within the State. Therefore, the inclusion of Items 3(a), and 5 of the application is discretionary on the part of the State Agency. Item 4 may be excluded if: (1) The State Agency does not accept boarding or institutional schools for participation; or (2) obtains such information from boarding and institutional schools in a different manner when approving such schools for participation.

B. Claim Form

Exhibit 1 is a combined school lunch-special milk claim form that is being used by AMS for private schools under agreement with CCC. This claim form is designed for use when calculations concerning the quantity of milk eligible for reimbursement are based upon the quantity of fluid milk purchased by the school for service to children. The section identifying the school and the sponsoring agency, items 12, 13, and 16 through 20, the instructions pertaining to those items, and the certification concerning the accuracy of the claim constitute the minimum information required for a claim form by AMS. Exhibit 2 is a claim form that is being used by AMS for child-care institutions under agreement with CCC. State Agencies have an option of using their adaptation of this form or using the School Milk Section of their school claim form with appropriate instructions for child-care institutions.

Those States that require schools or institutions to determine the quantity of milk eligible for reimbursement by an actual daily count of the milk served to children shall make appropriate adjustments in the claim form to show the total number of half pints served to children during the month covered by the claim, exclusive of the first half pint served to children as part of Type A or B lunches.

The State Agency may authorize the submission of a consolidated claim covering the operations of more than one participating school or institution, with such supporting documents as the State Agency deems necessary to insure that each school or institution is operating in accordance with program requirements.

A school or institution having more than one attendance unit may be participating in the program with each attendance unit regarded as a single operation for reimbursement purposes, with differing rates of reimbursement assigned to the individual units (Section V-D). The State Agency shall establish the method under which such a school shall claim reimbursement, including the type of documentation required to insure that each unit is operating in accordance with program requirements. The alternative claiming methods include: (1) Individual claims from each unit; (2) A separate claim covering the units assigned the same reimbursement rate, e.g., one claim for all units assigned a 4-cent rate and one claim for all units assigned a 3-cent rate, etc.; (3) A single claim, with supporting data, covering the operations of all attendance units; and (4) The State Agency may expand the information to be included on its claim form to permit the reporting of any supporting data on the claim itself.

For schools and institutions in which two different rates or methods of reimbursement have been approved for different types of milk service, State Agencies shall establish a method under which such a school or institution shall claim reimbursement, including the type of records and documentation necessary to insure compliance with program pricing and reimbursement provisions. As a minimum, this must include an actual count of the quantity of milk served to children at the higher of the two prices at which it is offered.

C. Monthly Reports

State Agencies shall report Special Milk Program operations in schools and child-care institutions monthly on Form FD-28. Although the report form provides for the separate reporting of schools participating or nonparticipating in the National School Lunch Program, State Agencies may report all participating schools (and child-care institutions when handled by the same agency) on a combined basis.

SECTION X - RECORDKEEPING REQUIREMENTS

Program regulations provide for the maintenance of certain records by both the State Agency and participating schools and child-care institutions.

A. The State Agency

The program requirement providing that the State Agency maintain separate accounts of the funds received under the program does not require separate deposit of such funds nor does it preclude the State Agency from making a single payment to schools for reimbursement earned under the National School Lunch and Special Milk Programs. If such a single payment is made, the State Agency shall maintain, or cause to be maintained, records showing the amount of such payment made from each of the two accounts.

B. Participating Schools and Child-Care Institutions

The State Agency shall require a participating school or institution to keep such records as are required to determine that it is operating in accordance with the terms of its agreement with the State Agency.

(1) Nonprofit Food or Milk Service: A participating school or institution shall be required to keep records of the income received by, and expenditures made for, the food or milk service maintained so that the nonprofit character of such service can be determined.

(2) Milk Purchased for Service to Children: Records also must be maintained to verify the quantity of milk purchased for service to children during each month for which reimbursement is claimed. If the State Agency instructs schools or institutions to determine the quantity of fluid milk eligible for reimbursement from calculations based upon the total quantity of fluid milk purchased, as a minimum, records maintained by the school shall include:

(a) Invoices or other records of the total quantity of fluid milk purchased for all purposes during the month covered by the claim.

(b) An actual count of the quantity of fluid milk consumed by adults as a beverage, unless the State Agency has authorized the 5-percent method of estimating adult consumption.

(c) For schools serving Type A or B meals, a daily count of the number of such meals served to children with and without milk as required by National School Lunch Program procedures.

If the State Agency requires schools or institutions to determine the quantity of fluid milk eligible for reimbursement by an actual daily count, as a minimum, records maintained by the school shall include:

(a) Invoices or other records of the total quantities of fluid milk purchased for all purposes during the month covered by the claim.

(b) An actual daily count of the number of half pints of beverage milk consumed by children and by adults.

(c) A daily record of the quantity of fluid milk used for cooking and other non-beverage purposes, if reimbursement is claimed for such milk.

(d) For schools serving Type A or B meals, a daily count of the number of such meals served to children with and without milk as required by the National School Lunch Program procedures.

(e) For schools using two different rates of reimbursement for separate types of milk service a daily count of the number of half pints served at the higher of the two prices at which it is offered to children.

(3) First Claim Submitted: In some cases, the first claim submitted by a school or institution will cover less than a full month's operation. In order that the school or institution is not misled by the instructions on the claim form, it is recommended that, when the agreement is mailed by the State Agency, it be accompanied by a reminder that only the milk purchased for service to children during the period following the date a school or institution was authorized to begin operations can be included in the claim for the first month. Such a reminder could also emphasize that if a change was required in the school's or institution's pricing policy, reimbursement should be claimed only for milk served after the change in the pricing policy.

SECTION XI - RELATIONSHIP TO NATIONAL SCHOOL LUNCH PROGRAM

A. Type C Reimbursement

The Type C (milk only) meal will be continued as an approved meal type under National School Lunch Program regulations. The decision to continue or suspend Type C reimbursement shall be within the discretion of the State Agency.

Schools receiving reimbursement under the Special Milk Program may be approved for Type C reimbursement provided all conditions for participation in the National School Lunch Program are met and records are maintained by the school to insure that Type C reimbursement is not paid for more than one-half pint of milk per child per day.

B. Matching Requirements

Special Milk Program reimbursement to National School Lunch Program schools shall not be regarded as matching funds under the National School Lunch Program. State educational agencies therefore should maintain such records as are necessary to provide for the exclusion from the School Lunch Matching Report (FD-13) of Special Milk Program reimbursement payments made to National School Lunch schools.

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